

# **EXHIBIT B**

## **Part 1**

**SHARPENING OUR EDGE—STAYING COMPETITIVE  
IN THE 21ST CENTURY MARKETPLACE**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**GOVERNMENT REFORM**  
**HOUSE OF REPRESENTATIVES**  
ONE HUNDRED NINTH CONGRESS  
SECOND SESSION  
FEBRUARY 9, 2006

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## SHARPENING OUR EDGE—STAYING COMPETITIVE IN THE 21ST CENTURY MARKETPLACE

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THURSDAY, FEBRUARY 9, 2006

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON GOVERNMENT REFORM,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:09 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the committee) presiding.

Present: Representatives Tom Davis, Ros-Lehtinen, Mica, Gutknecht, Miller, Turner, Issa, McHenry, Foxx, Cummings, Van Hollen, Ruppersberger, and Norton.

Staff present: David Marin, staff director; Ellen Brown, legislative director and senior policy counsel; John Hunter and Jim Moore, counsels; Rob White, press secretary; Drew Crockett, deputy director of communications; Brien Beattie, professional staff member; Teresa Austin, chief clerk; Sarah D'Orsie, deputy clerk; Leneal Scott and J.R. Deng, computer systems managers; Krista Boyd, minority counsel; Adam Bordes, minority professional staff member; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Ms. ROS-LEHTINEN [presiding]. The committee will come to order. We thank the Secretary of Commerce Carlos Gutierrez for appearing before us this morning. Congressman Davis is on his way. I apologize for my casual attire, but we have a retreat in Maryland. The buses leave in just a few moments.

Some of the Members are going to stay around, Mr. Secretary, to hear your testimony as well as to hear from our private panel as well. And they will be going to meet us in a little bit.

But I wanted to open up the meeting and give Members an opportunity to make opening statements, and I would just like to say what a delight it is for me to be with you, Mr. Secretary, because certainly our economy is in great shape, and I think that has a lot to do with the steady hand with which you have dealt with your department to stimulate the economy, to diversify our workforce and to make sure that we can do all we can to have all of the economies of the world be free. And I notice that you refer to that freedom quotient in your testimony from the Heritage Foundation, and I thank you for that.

You have a compelling personal story that in my congressional district is well known, and I think it speaks to the many opportunities that are available here in the United States of America for any immigrant, for any refugee who wants to come here, study, work hard, play by the rules and become an America success story. And

that, Mr. Secretary, you truly are. You're a role model for all of us, and we take great pride in my congressional district especially to see you sitting here being the Secretary of Commerce. It's always a pleasure.

With that, I'd like to turn to Congressman John Mica, my Florida colleague, for opening statements, for the beginning of them.

Mr. MICA. Thank you, Madam Chairwoman, and good morning. I am pleased to have Secretary Gutierrez with us this morning and two other distinguished panels. I too will be joining my colleagues on the majority side of the aisle as we convene to plan our agenda for the balance of the year, and actually one of the most important questions that we could consider is staying competitive in the 21st century marketplace and sharpening our edge, which is the title of this morning's hearing.

I think it's particularly important, I have been on Government Reform with Ileana Ros-Lehtinen I think for 14 years. I don't know that we've really spent much time focusing on this. We did look at a trade and business commerce reorganization back in the 90's. But I think this is extremely important.

I commend the President on looking at how we focus on a workforce for the future, and I think some of the elements that have been proposed as far as increasing our capability with science, math, education and job training are absolutely essential elements and will strongly support the administration's proposal.

I think that—actually, I read all of the testimony last night, and it was very enlightening. You have a great array of expert witnesses who actually deal in business and commerce and some of the cutting edge of where the opportunities are for the future. And they have also identified tax policy, health care and a number of other challenges that we face in the global marketplace to keep up with some very good expertise witnesses.

What I wanted to do is just take a few minutes though and talk about one thing that isn't here. It's one of my favorite subjects. As we all know, we have a \$700 billion trade deficit. We are projecting this year about a \$400 billion budget deficit. I am more concerned about the trade deficit than I am the budget deficit. We'll work our way through that. In the Reagan era, when we dealt with the challenge of international communism, we had to spend money to protect and defend and also keep us secure. We are doing the same thing now in the war on terrorism. But a \$700 billion trade deficit should really be of concern, and some of the proposals the President put forth are longer term.

Now, one of the things I think we need to do and I want to focus just a second, I think we have the Secretary—I thought we had somebody, too, from the Department of State was on this before, but they—I don't see them now but we'll get a copy of this because they both play an important role in international trade as far as the government is concerned. How do we increase trade and deal with this deficit? It's pretty simple. You deal with trade assistance, trade promotion, trade finance and trade negotiation on the international scene.

Unfortunately, I still maintain—and some have heard this song and dance before—that the way the United States conducts international trade, business and commerce is somewhat dysfunctional.

I have a chart that's up there, and you can see it. It hasn't changed much. We have put a little bit of lipstick on the pig, but it is still a rather dysfunctional array of activities where negotiation is out here; finance out here. Commerce has something; State has something, and a host of other agencies that we see. We try to coordinate it, but we don't always get the best results.

One of the additional problems that we have in addition to having a dysfunctional trade organization is that our competition, China, the European Union, have actually come together, are more organized for trade, for trade finance. You can't tell where business, government, finance and trade negotiation begins and ends. And that is the competition that we face, and we don't have a structure to deal with that in the 21st century.

I want to talk a little bit about trade assistance and promotion and one of the challenges we face right now. I have another chart. If you look at really what we spend on trade assistance—international trade administration accounts for 4 percent of the Department of Commerce budget. If we look at the 40,000 people we have in the Department of Commerce, you might say that 1,200 directly deal with business and trade. So the Department of Commerce is somewhat a misnomer. It's sort of a weather department, and also NOAA, Bureau of Census, take up 65 percent of the resources, very little with trade.

What is even worse is that the amount of money that we are spending, the net amount of money—if you could put chart 4 up—because of some of the things Congress has done—you can't see that very well—but trade administration started out in 2005 with \$403 million, went down to \$398 in 2006. This wouldn't be bad enough, that we're reducing the amount of resources dedicated to promoting trade, business assistance and the activities to sell overseas, but we also have a capital cost sharing requirement, and that means that they are being charged against their budget for security and improvements that are usually wherever this foreign commercial service operation is located overseas. So actually you have a net reduction in the amount of money that's spent. And, actually, I have heard of offices, potential offices being closed.

So these are on the front line of doing business overseas, and we're decreasing our resources, not the Secretary's fault. It's the Congress' fault, OMB and others who deal with these issues.

I wanted to also say that, in addition to a net reduction in our resources to assisting business, most of this is not directed to the Ford's or to the—well, God knows, Ford has its problem and the large U.S. corporations, because most of them can deal overseas, but to medium and small business, which have the most difficulty in competing overseas, then the structure that we have as far as foreign commercial service operations—I have a chart, foreign commercial service operations by region. And we have a total of 79 foreign commercial service operations. And in some countries, we have them where we probably don't need them. We have about 80-some countries where we have no foreign commercial service operation.

Now that wouldn't be bad enough if those who have the responsibility—we don't have a foreign commercial service operation; we have the responsibility given to the Department of State. The Department of State has—I queried the Department of State, and I

think we have 290 foreign commercial service officers under the Secretary located overseas.

The bulk of the positions overseas that deal with the economic assistance and promoting U.S. business and aid to business overseas, we have 497 officers who are economic officers under the Department of State.

If this doesn't have you confused, I'll totally confuse you in a minute. We have a total of 1,319 economic officers, foreign service officers. That's within the Department of State. So they're not located overseas, so most of those are probably in Washington or wherever. So 497.

Then we asked, what do they do? And this is the response and the way they said it: The difference is accounted for by the fact that many economic officers are entry level officers who in their first one or two tours in the foreign service fill rotational or counselor positions. So that's what we're sending in the areas where we have no foreign commercial service officers, sort of our rookies to assist business.

So the structure is dysfunctional, the resources are being cut back, and then we send rookies in to do the job. When you want to promote business, assist business, you have to have people who know what they're doing, and we send in sometimes the least capable.

We do have the same problem in Congress. Nobody is responsible specifically for putting together a comprehensive trade and business package. We have the same jurisdictional problems Department of Commerce has with dealing with State and the myriad other agencies we saw.

Just, in conclusion, for example, in the Baltic areas, Lithuania, Estonia, Latvia, I think we have one foreign commercial service officer for three of the biggest emerging markets, and we're about to lose that person.

Some years ago, through some political wheeling and dealing, I got a foreign commercial service officer assigned to the Slovak Republic. When we did that—you can see the figure when he first came in was \$225,000; this is with one position—up to a quarter of a billion dollars of U.S. business. In addition to what you see here and not accounting for are about six Boeing aircraft worth more than \$1 billion. That's in a short period with one person.

So in most countries, again, we have no foreign commercial service officer or rookies. In the emerging markets, we have very limited resources. And to do business—put back up the embassy. Having been in international trade for 7 years in the private sector—where is the picture of one of the embassies?

I defy you to try to conduct business as an American businessman or someone overseas—this is one of our embassies—and penetrate from that gate to get into the foreign service commercial offices. Most of the assistance is located within the embassy. This isn't the Citadel that most of them are, but it was difficult as me as a former chief of staff in the U.S. Senate with sort of credentials to even penetrate into this and talk to anybody, again, with my standing.

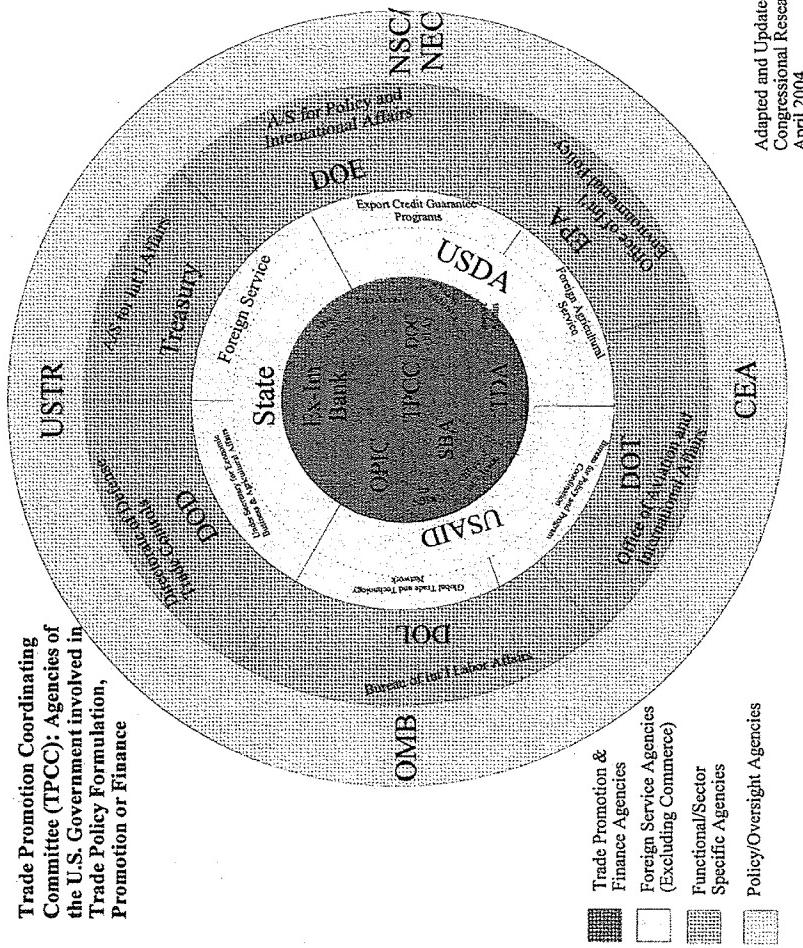
So this is the system that we have in place now for assisting U.S. trade and business. Mostly the small guys. On top of that, we have

a system of penalizing them. We charge them a fee. Most countries do not charge a fee. Some underwrite their international trade and business efforts, not to mention research and development and all the other things that are done.

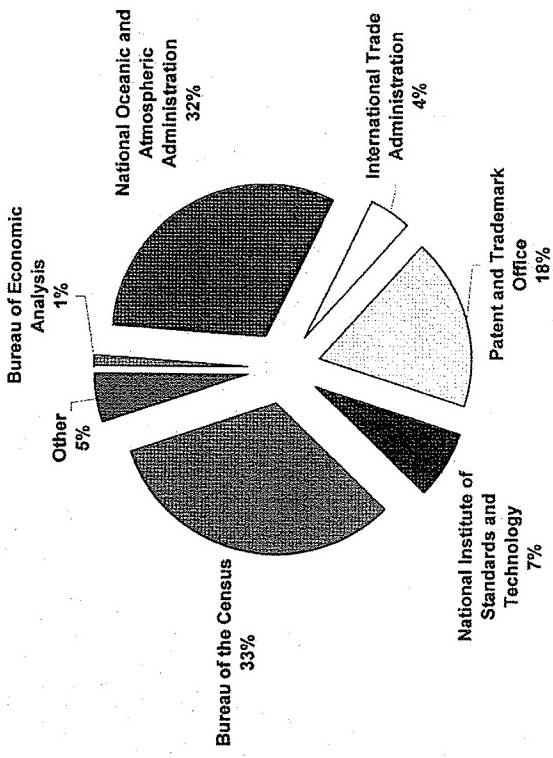
So not many people are familiar with this structure. I raise this as something continually that we need to pay attention to. I thank you for allowing me the time, Mr. Chairman. We filled a little with your coming in.

What we're talking about here today is very important. I support the initiatives proposed. I think we need to even look beyond that. Thank you.

[The information referred to follows:]

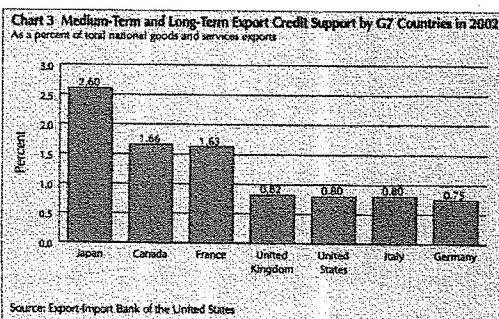
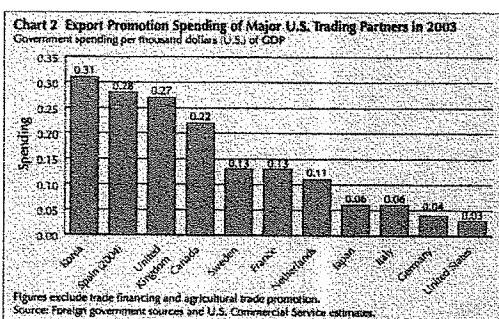
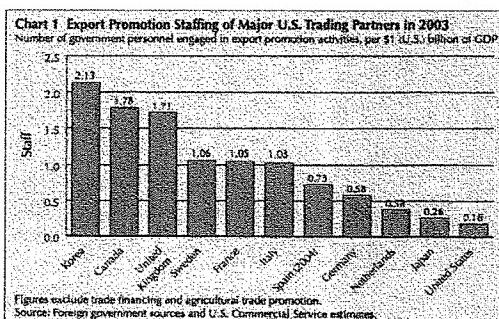


**Department of Commerce  
Employment Figures  
as of September 2005**



**The Department of Commerce is a misnomer.**

**Of the 40,093 employees at Commerce, only 12,000 jobs focus on business and international trade.**

*Unlocking America's Potential***Government Spending and Staffing of Major Exporting Countries\***

\* The U.S. figures in Charts 1 and 2 are based on trade promotion activities of the Commerce Department, International Trade Administration. Federal trade promotion funding (as defined in Chart 2) has averaged approximately \$300 million in the current four-year period (FY 2001–2004), up from an average of approximately \$260 million in the preceding four-year period (FY 1997–2000).

**The Presidential Budget Proposal  
for Fiscal Year 2007**

**Department of Commerce**  
(In millions of dollars)

	<b>2005</b> Actual		<b>Estimate</b>	
		<b>2006</b>		<b>2007</b>
International Trade Administration	403	398	409	
Capital Security Cost-Sharing - Program Obligations	3.095	10.57	20.687	
	<b>399.095</b>	<b>387.43</b>	<b>388.313</b>	

## Foreign Commercial Service Offices By Region

<b>Africa/Near East/South Asia</b>	25. Philippines 26. Singapore 27. Taiwan 28. Thailand 29. Vietnam	52. Spain 53. Sweden 54. Switzerland 55. Turkey 56. Ukraine 57. United Kingdom 58. Yugoslavia
1. Algeria 2. Cote d'Ivoire 3. Egypt 4. Ghana 5. India 6. Israel 7. Jordan 8. Kenya 9. Kuwait 10. Lebanon 11. Morocco 12. Nigeria 13. Pakistan 14. Saudi Arabia 15. Senegal 16. South Africa 17. UAE	30. Austria 31. Belgium 32. Bulgaria 33. Croatia 34. Czech Republic 35. Denmark 36. Finland 37. France 38. Germany 39. Greece 40. Hungary 41. Ireland 42. UK (Ireland, N.) 43. Italy 44. Latvia 45. Netherlands 46. Norway 47. Poland 48. Portugal 49. Romania 50. Russia 51. Slovak Republic	<b>Europe</b> <b>Western Hemisphere</b> 59. Argentina 60. Barbados 61. Brazil 62. Canada 63. Chile 64. Colombia 65. Costa Rica 66. Dominican Rep 67. Ecuador 68. Guatemala 69. Honduras 70. Jamaica 71. Mexico 72. Panama 73. Peru 74. Trinidad/Tobago 75. Uruguay 76. Venezuela
<b>East Asia/Pacific</b>	18. Australia 19. China 20. Indonesia 21. Japan 22. Korea 23. Malaysia 24. New Zealand	

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Foreign

**EMBASSIES AT WHICH STATE DEPARTMENT PERFORMS  
COMMERCIAL FUNCTION**

	AFRICA	EAST ASIA & PACIFIC	NEAR EAST
1	Abidjan	39 Apia	71 Algiers
2	Addis Ababa	40 Bandar Seri Begawan	72 Beirut
3	Antananarivo	41 Dili	73 Damascus
4	Asmara	42 Kolonia	74 Doha
5	Bamako	43 Koror	75 Manama
6	Bangui	44 Majuro	76 Muscat
7	Banjul	45 Phnom Penh	77 Sanaa
8	Bissau	46 Port Moresby	78 Tripoli
9	Brazzaville	47 Rangoon	79 Tunis
10	Bujumbura	48 Suva	
11	Conakry	49 Ulaanbaatar	
12	Cotonou	50 Vientianne	
13	Dar Es Salaam		80 Colombo
14	Djibouti		81 Dhaka
15	Freetown		82 Islamabad
16	Gaborone		83 Kabul
17	Harare	51 Ashgabat	84 Kathmandu
18	Kampala	52 Baku	
19	Khartoum	53 Bishkek	
20	Kigali	54 Chisinau	
21	Kinshasa	55 Dushanbe	85 Asuncion
22	Libreville	56 Ljubljana	86 Belize
23	Lilongwe	57 Luxembourg	87 Bridgetown
24	Lome	58 Minsk	88 Georgetown
25	Luanda	59 Nicosia	89 Kingston
26	Lusaka	60 Reykjavik	90 La Paz
27	Maputo	61 Riga	91 Managua
28	Maseru	62 Sarajevo	92 Montevideo
29	Mbabane	63 Skopje	93 Nassau
30	N'djamena	64 Tallinn	94 Paramaribo
31	Niamey	65 Tashkent	95 Port au Prince
32	Monrovia	66 Tbilisi	96 Port of Spain
33	Nouakchott	67 Tirana	97 St. Georges
34	Ouagadougou	68 Valletta	98 Tegucigalpa
35	Port Louis	69 Vilnius	
36	Praia	70 Yerevan	
37	Windhoek		
38	Yaounde		

497 - Overseas  
 (1319) Total -

"As you can see, the number of economic positions overseas (497) is considerably less than the number of Foreign Service officers with an economic specialty (1319). The difference is accounted for by the fact that many economic officers are entry level officers, who in their first one or two tours in the Foreign Service fill rotational or consular positions; other economics officers are stationed in Washington, others are participating in long-term training or performing non-economic jobs overseas, including senior positions as Chiefs of Mission and Deputy Chiefs of Mission."

-Matthew A. Reynolds  
Acting Assistant Secretary  
Legislative Affairs



## Foreign Commercial Service Impact On Exports to the Republic of Slovakia

	Counted Successes	Export Value per Year
FY2002	4	\$225,000
FY2003	21	\$23,400,000
FY2004	30 +	\$55,000,000
FY2005	30 +	\$209,000,000

Chairman TOM DAVIS [presiding]. Mr. Secretary, you have limited time here; is that correct? You have a limited period of time.

Secretary GUTIERREZ. Yes.

Chairman TOM DAVIS. Let me ask Members if we can hear from the Secretary and do questions, and then I'll put my statement in the record.

[The prepared statement of Chairman Tom Davis follows:]

**Opening Statement of Chairman Tom Davis  
Government Reform Committee Hearing  
“Sharpening Our Edge – Staying Competitive in the 21<sup>st</sup> Century Marketplace”  
February 9, 2006**

Good morning, today the Committee meets to study the challenges America faces in staying competitive in the 21<sup>st</sup> Century global economy.

Over the last few years, the rapid growth of emerging free market economies has led to a heated debate in the United States. Pundits, politicians and armchair economists have all warned about the impact of low-cost Chinese labor, Indian outsourcing and vast numbers of new Asian engineering graduates on the traditional economic leadership role of the United States.

It is true that the IT revolution and the continued push to lower global trade barriers has helped create what New York Times columnist Tom Friedman has referred to as a “flatter” world. It’s a world in which many familiar have been reordered and in which American workers have to compete with their counterparts around the world more directly than ever before. However, as David Brooks, also of the New York Times, pointed out in a recent column, “Americans remain the hardest working people on the face of the earth and the most productive.”

It is important to remember that the United States has been the prime mover in fostering the rise of the global economic order. If the globalizing world increasingly resembles America, it is because the rules and values on which that world operates are becoming increasingly American – competition, transparency and free markets – and because it is American companies that are often best-positioned to take advantage of new global opportunities.

However, many Americans, including some Members of Congress, have reacted to some of the tougher changes brought about by globalization by advocating U.S. withdrawal from the bold new world it is responsible for creating. After all, as Friedman noted, “It is easy to demonize free markets – and the freedom to outsource and offshore – because it is so much easier to see people being laid off than being hired.” Yet the truth is that the U.S. unemployment rate this month hit a nearly a five-year low and the availability of low-cost consumer goods and services from China and India have allowed average Americans to stretch their hard-earned dollars further than ever before. Think DVD players. Think cell phones. Think leather jackets.

As Members of Congress, our reaction to the global economy should not be to fear or shun it. Rather, it should be to constantly look for ways to streamline U.S. policies in order to maximize our ability to blaze new paths and nurture innovation. In setting forth his American Competitiveness Initiative during the State of the Union address, the President offered some challenging proposals. Our purpose here today is to not only examine this Initiative but to help frame the debate over maximizing U.S. competitiveness. We'll hear from business leaders who have been successful in the global economy. We want them to tell us if the many competitiveness proposals will actually make a difference to decision makers in the business world.

Today we are honored to welcome the Secretary of Commerce, Carlos M. Gutierrez. We will also hear from Dr. Hector de J. Ruiz, President and CEO of Advanced Micro Devices; M. Brian O'Shaughnessy, President and CEO of Revere Copper Products; Mr. Richard S. Garnick, President, North American Services for Keane, Inc.; Ms. Deborah Wince Smith, President of the Council on Competitiveness; and former Congressman Dave McCurdy, President of the Electronic Industries Alliance. Thank you all very much for being here.

Chairman TOM DAVIS. So why don't you proceed at this point. It's our policy we swear you in before you testify, so raise your right hand.

[Witness sworn.]

Chairman TOM DAVIS. We very much appreciate you being here. This is an important hearing. This not only fits into what the President mentions in the State of the Union but something a lot of us have been talking about for a long time, a changing world economically and America's being ready to compete in that world. Go ahead. Thank you.

**STATEMENT OF CARLOS M. GUTIERREZ, SECRETARY, U.S.  
DEPARTMENT OF COMMERCE**

Secretary GUTIERREZ. Thank you, Mr. Chairman. I appreciate the opportunity to be here. Members of the committee, I am very pleased to have this opportunity to discuss American competitiveness, and with your permission, Mr. Chairman, I'd like to make a brief opening statement and submit my written testimony for the record.

Let me say at the outset that American companies and American workers are the most competitive and innovative in the world. And I would like to just repeat that because it's often good to remind ourselves again and again that we are the most competitive economy on the face of the Earth.

Our GDP per capita is among the highest in the world. Over the past 4 years, the United States has experienced faster growth in real GDP than any other major industrialized nation. Our 2005 GDP per capita is higher than that of Japan, the UK, Germany, France, Italy and Canada. So therefore we have the highest GDP per capita of any other G7 nation.

Just to give you an idea, the U.S. economy is growing well over twice as fast as the European Union, so the European Union being a very large economy in the worldwide context, our economy is growing twice as fast as that of the European Union.

Our unemployment rate is 4.7 percent. This is lower than the unemployment rate in Canada, in Italy, in Germany and in France, and in many of those countries the range there is anywhere from 6.5 all the way up to 9 percent.

The United States is the world's leading exporter of goods and services. U.S. productivity has had one of the fastest 5-year periods of growth in almost 40 years. We have created over 4.8 million jobs since April 2003. An estimated 72 percent of the world's total venture capital spending is invested in U.S. companies.

So America's willingness and ability to compete has made our Nation's the most powerful economy, and the great thing is that we have the numbers and we have the results and we have the facts to show it. The challenge of course is, how do we maintain our leadership role as the most competitive economy in the world? How do we keep it going? And how do we step it up even more in light of the fact that the world is getting more and more competitive?

In his State of the Union address, President Bush announced an ambitious American competitiveness initiative. The centerpiece is the President's commitment to doubling funding for Federal research and development in the physical sciences and engineering

over the next 10 years. To maintain our economic leadership, we need to generate new technologies. We need to continue to invent the future the way we have been doing so for decades and decades.

The American Competitiveness Initiative calls for a 24 percent increase in funding for our world class laboratories at the National Institute of Standards and Technology. This funding will allow scientists there who have won three Nobel Prizes to advance research in such promising fields as nanotechnology, hydrogen and quantum information. This could lead to new cancer therapies, fuel cells to power pollution-free cars and unbreakable codes to protect electronic financial transactions, among many other innovations. Research on nanotechnology data alone is crucial to the private sector success in a market that could reach \$1 trillion over the next decade.

The second major component is investing in human capital. President Bush is proposing investing \$380 million in fiscal 2007 to improve math and science skills in K through 12 schools. His plan also provides for job training, supporting universities that offer world class education and research opportunities, and attracting and retaining the best and brightest high skilled workers from around the world by supporting comprehensive immigration reform.

In addition to the American Competitiveness Initiative, the President is committed to fostering a business environment that encourages entrepreneurship and risk taking, and we know what it takes to have an environment that is innovation friendly.

We need to continue to keep taxes low, and we need to make the President's tax cuts and the Congress's tax cuts permanent, and we need to recognize that not making them permanent is the same as taking a tax increase, and the last thing our economy needs today is a tax increase.

We need a regulatory climate that is responsible and reasonable. We need to ensure that entrepreneurs who are creating a business and trying to create new products and creating jobs aren't sabotaged by frivolous lawsuits.

We need a health care system that is efficient, affordable and portable. We need to protect innovation through intellectual property rights, and we need an economy that is open to the global marketplace.

Compared to other countries, America has a powerful business environment, and that is why we are leading the world, and that is why there is no other industrialized Nation that comes close. But we are not complacent, and we know we still have work to do. When we open our markets to 3 billion new consumers, we also open up to 3 billion new competitors. To thrive in an open world, economies like ours compete on the basis of innovation, on the basis of talent and on the basis of the business environment that we create.

Mr. Chairman, the President, the Commerce Department, and this administration are committed to maintaining America's leadership and competitiveness in today's dynamic global economy. I want to thank you and the members of this committee for your support. I want to recognize your foresight, Mr. Chairman, in call-

ing these hearings, and I would welcome your comments and suggestions, and I'd be pleased to take your questions.

[The prepared statement of Secretary Gutierrez follows:]

**Testimony of  
Carlos M. Gutierrez  
Secretary of Commerce  
Before the  
House Government Reform Committee  
February 9, 2006**

Chairman Davis, Ranking Member Waxman, and members of the Committee, thank you for the opportunity to appear before you today to discuss U.S. competitiveness, a vitally important topic for our workers, companies and the future of our economy. As President Bush said in his State of the Union address, the American economy is preeminent, but we cannot afford to be complacent. We have a choice in how to respond to the rise of new competitors like China and India. Some want to respond by retreating into isolationism. But I want to talk to you today about the path that the President is following – maintaining our leadership by competing with confidence.

**The Competitiveness Imperative**

The spread of economic freedom has brought many new participants into the global economy. According to the Heritage Foundation and Wall Street Journal Index of Economic Freedom, there are now 72 countries with economies that are considered free or mostly free, close to double the number of just 10 years ago. These nations are becoming increasingly interconnected as a result of advances in telecommunication networks, new trade agreements, integrated financial markets, and distributed supply chains.

The opportunities for U.S. firms and workers presented by the global economy are immense. Consider the fact that over 95 % of the world's population lives outside of

U.S. borders—all potential customers of U.S. firms. For example, as the President noted in his State of the Union address, one out of every five U.S. manufacturing jobs is related to global trade.

While this dynamic and interconnected world of our suppliers, customers, employers and competitors brings opportunity, it also requires that workers and firms be willing to change. Countries that resist change by erecting trade barriers, imposing burdensome regulations on product and labor markets or trying to pick and choose industry winners do so at their own risk. However, embracing change and focusing on competitiveness is the path to a higher standard of living in this new world. The United States is on this path and it has yielded results. In 2005, our per capita GDP of \$42,000 is among the highest in the world and our January 2006 unemployment rate of 4.7% is among the lowest of all G7 countries.

An economy's productivity is the best measure for whether it is competitive and positioned to maintain a high standard of living. Productivity measures the efficiency with which goods and services are produced. And that, in turn, determines the real wages and standard of living of those workers. Over the past five years, productivity in the non-farm business sector has grown 3.3% annually – one of the fastest five year periods of growth in almost 40 years. So, on this score, the United States is well positioned to maintain its high standard of living.

But the rest of the world is not standing still and neither can we. In order to remain the most competitive economy in the world, we must focus on three areas of policy. First, we must have the capacity to continually innovate and stay ahead of the competition. Second, we must have a business environment in which entrepreneurs can

deliver new products and services. And, third, we must have an open and level global playing field on which our products and services can be sold. President Bush and the Department of Commerce are committed to addressing each of these areas.

#### **Innovation Capacity**

In his State of the Union Address, President Bush announced the American Competitiveness Initiative (ACI), which provides an agenda for maintaining our leadership in two areas that significantly contribute to a nation's innovation capacity: intellectual and human capital.

The centerpiece of the ACI is the President's strong commitment to double over 10 years investment in the key Federal agencies that support basic research programs in the physical sciences – the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology (NIST).

NIST has long been a center for high-impact basic research, as evidenced by the three Nobel Prizes its scientists have been awarded. NIST research has led to innovations that we use every day, from the high-density magnetic storage technology which makes devices such as computer hard drives and mp3 players so compact, to protective body armor and diagnostic screening for cancer patients. The ACI calls for \$535 million for NIST labs and research construction accounts in 2007, a 24% increase over 2006 (after omitting earmarks). This will help fund the work of 3,900 scientists and engineers from government, industry and universities – an increase of 600 researchers over FY 2006. Their work in areas including nanotechnology, hydrogen fuel systems, and quantum

information will lead to the innovations of tomorrow, such as much more efficient batteries, and smaller computer chips to power our digital devices, as well as fuel cells to power pollution-free cars and unbreakable codes to protect electronic financial transactions and video transmissions.

It is also critical to focus on how these dollars are spent. The most successful research is based on careful planning and merit-based peer review rather than by funding a specific organization or project. So, to maximize the impact of ACI research, we encourage the Congress to resist earmarking scientific research funding.

We must also focus on the two-thirds of all research funding that is invested by the private sector in addition to the one-third of research funding that comes from the Federal Government. This is why it is critical that Congress makes the R&D tax credit permanent. Making the credit permanent, which is estimated to cost \$86 billion over ten years, would enable companies to have certainty in their tax planning and be bold in their R&D investment strategy. As part of the ACI, the President is also committed to working with Congress to modernize the credit to make it even more effective and efficient at encouraging private sector innovation.

The second major component of the ACI is its call for investment in human capital. As the President noted in his State of the Union address, our greatest advantage has always been our educated, hardworking and ambitious people. Maintaining our leadership in human creativity and talent begins with encouraging children to take more rigorous math and science courses. The ACI proposes \$380 million in new Federal support to improve the quality of math, science, and technological education in our K-12 schools and engage every child in rigorous courses that teach important analytical,

technical, and problem-solving skills. The ACI will expand access of low-income students to Advanced Placement/International Baccalaureate (AP/IB) coursework by training 70,000 additional teachers over five years to lead AP/IB math and science courses, and encourage up to 30,000 math and science professionals over eight years to become adjunct high school teachers. Building on the successes of the No Child Left Behind Act, the ACI will raise student achievement in math and science through testing and accountability.

As part of the ACI, the President's FY07 Budget introduces Career Advancement Accounts (CAA). CAAs will be self-managed accounts of up to \$3,000 that workers and people looking for work can use to obtain education and training. The CAA initiative will offer training opportunities to about 800,000 workers annually, more than tripling the number trained under the current system, and give America's workers the resources they need to increase their skills and compete for the jobs of the 21st century economy.

Maintaining our leadership in human capital also requires that we continue to attract and retain the best and the brightest high-skilled workers from around the world by reforming America's immigration system, while protecting our borders. Much of America's innovation – and many of our jobs – come from companies started by Americans who immigrated to our country.

In the increasingly competitive international marketplace, it is vital that we continue to make America a hospitable place for entrepreneurs and encourage highly skilled specialists from around the world to build their businesses. Just as corporations compete to recruit the best possible workers, and universities compete to recruit the best possible students, our country will increasingly compete with other countries to recruit

and retain the best most highly skilled minds. This is a zero-sum game. People will start their innovative businesses in the United States; or in the countries we compete with. Recruiting the world's most talented people to the United States will increase our entrepreneurship, our international competitiveness and – according to every major study of this issue – will net many high-paying jobs for all Americans.

#### **A Competitive Business Environment**

A competitive business environment requires that we remove the barriers that American workers and firms confront in competing with the rest of the world. A recent study conducted by the National Association of Manufacturers concluded that external overhead costs from taxes, health and pension benefits, tort litigation, regulation and rising energy prices add approximately 22 percent to U.S. manufacturers' unit labor costs (nearly \$5 per hour worked) relative to their major foreign competitors. The Office of Management and Budget (OMB) estimates that since 1981, major regulations reviewed by OMB have added at least \$117 billion to the overall yearly costs of regulation on the U.S. economy. The Department of Health and Human Services (HHS) just reported that healthcare costs have risen to 16% of GDP. And since 2003, the price of petroleum products used by the industrial sector rose, on average, by 60%, while the price of natural gas rose by 35% in the same time period.

In his State of the Union address, the President called for a number of initiatives to reduce these competitive barriers. He noted that the tax relief passed by Congress has left \$880 billion in the hands of American workers, investors and small businesses, but that unless Congress makes it permanent, we will face a massive and anti-competitive tax

increase. The President's agenda for making health care more affordable includes the strengthening of Health Savings Accounts to provide greater choice and flexibility in how workers and employers spend their health care dollars, as well as reforming the medical liability system to provide access to the courts while reducing frivolous lawsuits and excessive jury awards. His energy agenda calls for breaking our addiction to foreign oil through the use of technology. To accomplish this, the President announced the Advanced Energy Initiative to provide a 22-percent increase in clean energy research.

The Department of Commerce's role begins by providing the data and analysis to better understand the changes underway in the global economy and what we need to do to maintain our leadership position. Our Economics and Statistics Administration, home to the Bureau of Economic Analysis, and the Census Bureau, provides critical insight into the macro-level trends in our economy, such as drivers of GDP growth. However, competitiveness is in large part related to what is happening at the more micro level, i.e., the firm, industry and regional level—and our data and analysis are helping us better understand changes in the competitive forces at work at these levels. In addition to improving our understanding at this finer level of detail, we also need to better understand the impact that variables such as intellectual and human capital, as well as business costs, have on competitiveness. This is especially true as services become an ever more important part of our economy and innovations increasingly come from new processes and ways of organizing.

At the Department of Commerce we are focused on understanding the competitive burdens faced by U.S. businesses and identifying ways to remove these burdens. The Office of Industry Analysis within the International Trade Administration's

Manufacturing and Services unit (MAS) was called for by the Department's "Manufacturing in America" report to ensure that U.S. industry perspectives are appropriately represented in interagency debates on policies affecting competitiveness. As you know, Federal agencies are required to conduct economic impact assessments when promulgating new regulations. However, the way that regulations impact U.S. firms is changing. When an industry's market is purely domestic, regulations are felt universally. But, when the competition is global, the industry may have to shoulder burdens imposed by new regulations that their global competitors do not face. The Office of Industry Analysis is making investments in data and analytical capabilities to help Federal rulemaking agencies consider the impact of regulation on global competitiveness and has begun to work with Federal rulemaking agencies to ensure that these implications are recognized.

In addition to establishing the Office of Industry Analysis, MAS has successfully implemented 33 of the 57 recommendations made by the Department's "Manufacturing in America" report, including seeking private sector advice about manufacturing competitiveness, identifying and prioritizing policies that have the most impact on competitiveness, and helping OMB to assess and choose 76 priority manufacturing regulatory reforms identified in their 2004 public call for manufacturing reform nominations, coordinating policy issues and structural costs affecting the manufacturing sector through the Interagency Working Group on Manufacturing, and implementing our Standards Initiative to reduce standards-related trade barriers.

Another critical component of a competitive business environment is a sound infrastructure. Broadband technologies are the roads and railways of the 21st century,

generating the next wave of economic expansion. Just as transport systems opened up new economic horizons in the last century, advanced telecommunications networks will pave the way for productivity gains across global economies in the new century.

President Bush established a national goal of universal, affordable broadband access for all Americans by 2007. We are making strong progress towards this goal and the number of broadband lines has grown from 9.6 million when President Bush took office to well over 35 million. However, more needs to be done. Working with the FCC, the Department of Commerce has increased the amount of spectrum available for wireless broadband services such as 3<sup>rd</sup> Generation mobile services, Wi-Fi and WiMax. In addition, President Bush has supported market-based policies that are resulting in the required deployment of advanced high-speed fiber optic lines deeper and deeper into American neighborhoods. With each of these initiatives, we radically improve the competitive environment for broadband services. By developing the most competitive broadband marketplace in the world, American consumers will have the most affordable and innovative broadband services in the world.

The National Oceanic and Atmospheric Administration (NOAA) is also making critical contributions to our business infrastructure by providing weather information that helps reduce the high uncertainty and variability of environmental conditions that have an impact on our energy grids, our transportation systems, and the long-term business planning of American companies. In addition, 61% of U.S. trade moves through our ports and the sea. Land- and satellite-based observations collected by NOAA satellites help enable efficient and safe routing of resources through these ports.

A strong intellectual property system and effective enforcement of intellectual property rights are critical components of a competitive business environment. This is especially true in our IP-based economy. According to a recent study, 75 percent of the value of publicly traded U.S. companies—some \$5 trillion—comes from “intangible” assets such as brands, copyrights, and patents. Entrepreneurs, firms and investors would not commit substantial resources to research, development and marketing of new technology if they were not assured of receiving and maintaining adequate patent protections.

The U.S. Patent and Trademark Office (USPTO) received over 400,000 patent applications last year. Applications have increased at a steady pace every year and that is a good sign that innovation is alive and well in America. This volume, along with the consistent growth rate and the increasing complexity of the applications, present significant operational challenges.

The USPTO has worked hard to improve quality and more efficiently process applications. In fiscal 2005, the USPTO hired 978 new patent examiners, and plans to hire 1,000 new examiners in 2006 and 2007. They have over 4,000 patent examiners today and plan to have 5,235 on board by the end of fiscal 2007. And, the President's budget for fiscal 2007 gives the USPTO full access to all the fee revenue it receives. The USPTO needs these resources to continue its hiring of new patent examiners and implement its 21st Century Strategic plan to improve patent quality and decrease pendency.

An efficient patent system is an important first step, but we must be serious about enforcement of intellectual property rights to protect their enormous economic value and

provide an incentive for entrepreneurs to innovate. The Administration is pursuing a comprehensive plan for intellectual property rights (IPR) enforcement. This plan includes the Strategy Targeting Organized Piracy (STOP) Initiative, launched by the Administration in October 2004, which brings together the Departments of Commerce, Homeland Security, Justice and State, as well as the Office of the U.S. Trade Representative to provide the foundation and focus for our efforts in the global fight against counterfeiting and piracy. In addition, we are working with the Chinese through the Joint Committee on Commerce and Trade's (JCCT's) Intellectual Property (IP) Working Group to help China take meaningful steps toward significantly improving IPR protection and enforcement. Through the JCCT, China has committed to increased criminal prosecution, enhanced cooperation with U.S. law enforcement and joining the World Intellectual Property Organization (WIPO) Internet Treaties. An International IPR Enforcement Coordinator has been established to lead the National Intellectual Property Law Enforcement Coordination Council (NIPLECC) and ensure an effective and efficient protection of intellectual property in the United States and throughout the world.

We must educate other governments about intellectual property rights. So far, the U.S. Government has conducted over 400 IPR technical assistance and enforcement projects in the United States and around the world, including the creation of the Global IP Academy at the USPTO. Additionally, we have initiated an IP experts program that will soon have an expanded presence in China and a presence in Russia, India, Brazil and elsewhere. The IP experts program will enhance our ability to work with local government officials to improve IP laws and enforcement procedures in addition to

assisting U.S. businesses to better understand the challenges of protecting and enforcing their IPR.

We must also effectively balance our economic and national security interests in the trade of sensitive high technology products. The United States is the world leader in the production of many high-technology products that are so sensitive that their export must be controlled to facilitate their flow to legitimate end-users while keeping them out of the hands of those who would do us harm. Examples of such products range from computers and microprocessors to encryption equipment to sophisticated machine tools. However, the United States often is not the sole producer of these items. Producers in Europe, Asia, and elsewhere are also eager to capture export markets for these sensitive items. The Department of Commerce is working to ensure that these other producers are subject to the same rules, controls, and restrictions as American firms, to ensure that the U.S. producers are not disadvantaged by export controls and that exports from these non-American producers do not threaten U.S. national security. The Department of Commerce is also taking active steps in a number of key industries such as night vision, composite materials, and semiconductors to ensure export controls are carefully targeted to meet our overriding national security needs without denying our companies legitimate markets.

While advances in communication technology and transportation have made the world a smaller place, location is very often still a critical determinant of a competitive business environment. Professor Michael Porter of Harvard Business School has identified the fact that the development and commercialization of new technologies takes place disproportionately in what he calls "clusters," or "geographic concentrations of

interconnected companies and institutions in a particular field." Prominent examples nearby include the telecommunications cluster in Northern Virginia or the biotechnology cluster in the Montgomery County, Maryland area. Regions and communities can find significant competitive advantage by identifying and then aligning research, education, infrastructure, and private sector activities around fields in which they have unique strengths.

The President's 2007 budget calls for a \$47 million increase in Commerce's Economic Development Administration's (EDA's) budget so that it can contribute to the Nation's competitiveness by focusing on regional cluster development strategies, innovation and entrepreneurship. EDA's successes with this approach to date includes a \$1 million investment in the Piedmont Triad Research Park in North Carolina, which is building a leading-edge biotechnology business around science derived from the region's older tobacco business. This investment is expected to create 178 high-skill, high-wage jobs and generate \$87 million in private investment.

#### **Open and Level Global Playing Field**

Finally, an open and level global playing field is critical to the future success of American firms and workers. This Administration believes that America's businesses, workers and farmers can successfully compete against anyone in any market, so long as we have an equal footing.

The Bush Administration's trade agenda seeks to capitalize on the opportunities created by trade liberalization and the Commerce Department contributes in two key ways. First, we are working to open new markets and eliminate barriers to U.S. products

and services through trade negotiations. From bilateral meetings, to Free Trade Agreements and the Doha Round, we are creating new opportunities and expanding markets for American businesses and workers.

Second, we are focused on enforcing antidumping and countervailing duty laws that protect U.S. businesses and workers from unfair trade practices. We are currently administering 323 antidumping and countervailing duty orders, 58 of which are on products from China. These laws foster the competitiveness of the American economy by ensuring that U.S. and foreign products compete on factors such as cost efficiency, quality, customer service and innovation, rather than on whether the foreign producer benefits from subsidies.

**A Confident Future**

By working together on this bold agenda, we can ensure that American workers and firms continue to lead the world. I urge you to support the American Competitiveness Initiative and the President's broader efforts to confront the global economy with confidence.

**Conclusion**

Mr. Chairman, thank you again for the opportunity to appear before you today. This concludes my statement. I would be pleased to answer any questions you may have.